

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 TRSE-00 FRB-01 MMO-04

FEA-01 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00

H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 4865

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

OECD PARIS 1801

UNCLAS NEW DELHI 10324

PASS TREAS AND FRB

E.O. 11652: N/A

TAGS: ECRP EFIN IN

SUBJECT: CERP-0200 - FINANCE MINISTER ANNOUNCES A RANGE OF MINOR
CHANGES IN 1977/78 BUDGET

REF: A) NEW DELHI 8875

B) NEW DELHI A-123

1. IN RESPONSE TO CRITICISM LEVELLED AGAINST THE IFY 1977/78
BUDGETARY PROPOSALS BOTH IN THE PARLIAMENT AND OUTSIDE, FINANCE
MINISTER H.M. PATEL, ANNOUNCED ON JULY 15, A NUMBER OF CHANGES
TO HIS BUDGETARY PROPOSALS ORIGINALLY PRESENTED TO THE PARLIAMENT
ON JUNE 17, 1977. PRINCIPAL TAX CHANGES INCLUDE (A) RATIONALIZATION
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OF THE EXCISE TAX STRUCTURE FOR THE FILM AND TEXTILE INDUSTRIES
TO STIMULATE PRODUCTION; (B) EXEMPTION OF MINI STEEL PLANTS
FROM PAYMENT OF CUSTOMS DUTY ON IMPORTED SCRAP AS WELL AS FROM
EXCISE TAX ON STEEL INGOTS; AND (C) COMPLETE EXEMPTION
OF NEWSPRINT FROM CUSTOMS DUTY.

2. THE SCOPE OF INVESTMENT ALLOWANCE HAS BEEN FURTHER LIBERALIZED

TO INCLUDE SMALL SCALE INDUSTRIES PRODSBEVEN LOW PRIORITY-
PRODUCTS. THIS IS IN LINE WITH THE GOI POLICY TO ENCOURAGE
SMALL SCALE INDUSTRIES. PATEL ALSO REVISED HIS EARLIER PROPOSAL
CONCERNING REDUCTION IN CUSTOMS DUTY FROM 120 AND 320 TO
40 TO 120 PERCENT ON STAINLESS STEEL SHEETS AND FIXED A UNIFORM
CUSTOMS DUTY AT 220 PERCENT AD VALOREM IN ORDER TO PROTECT
THE DOMESTIC INDUSTRY. HOWEVER, HE REJECTED THE DEMAND
FOR CANCELING THE PROPOSED INCREASE IN THE TAX ON QUOTE BEEDI
UNQUOTE, THE POOR MAN'S CIGARETTE.

3. THE REVENUE LOSS RESULTING FROM THE ABOVE TAX REDUCTIONS IS
ESTIMATED AT RS. 216 MILLION (DOLS25 MILLION AT EXCHANGE RATE OF
DOL1.00 EQUAL TO RS. 8.80) OR ABOUT 17 PERCENT OF REVENUE FROM
THE PROPOSED NEW TAXES. THE IFY 1977/78 PROJECTED DEFICIT,
THEREFORE, WILL INCREASE FROM RS. 720 MILLION (DOLS82 MILLION)
TO RS. 936 MILLION (DOLS107 MILLION).

4. COMMENT: THESE TAX REDUCTIONS ARE A MATTER OF ROUTINE FOR WHICH
THE FINANCE MINISTERS ALWAYS PROVIDE A MARGIN IN BUDGET PROPOSALS
FOR CONCESSIONS TO BE ANNOUNCED LATER TO PLACATE TRADE AND
INDUSTRIES. THE PRESIDENT OF THE FEDERATION OF INDIAN CHAMBERS
OF COMMERCE AND INDUSTRY HAS DESCRIBED THE TAX REDUCTIONS AS A
STEP QUOTE IN THE RIGHT DIRECTION UNQUOTE. INDUSTRY AND TRADE HAVE
GENERALLY WELCOMED THESE CHANGES AND ANTICIPATE HIGHER GROWTH IN
INDUSTRIAL PRODUCTION, PARTICULARLY
MINI STEEL PLANTS. HOWEVER, IT REMAINS QUESTIONABLE TO WHAT
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EXTENT TAX CONCESSIONS WILL STIMULATE PRODUCTION IN VIEW OF THE
CONTINUED SLACK DOMESTIC DEMAND.GOHEEN

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Disposition Approved on Date:
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